

# **2007 Medical Care and Dependent Care Flexible Spending Accounts Grace Period Questions & Answers**

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Internal Revenue Service Notice 2005-42 permits a grace period of 2 months and 15 days following the end of each plan year during which unused contributions in either your Health Care or Dependent Care Spending Account may be reimbursed for qualified expenses incurred during the grace period.

This means that since the State of Michigan's 2007 Spending Account plan year will end on December 31, 2007, you may incur qualified expenses through March 15, 2008, and use any remaining funds from your 2007 plan year account.

The grace period should not be confused with the run-out period, which is the period during which you may submit claims for reimbursement out of your prior plan year's account. The State of Michigan's new run-out period ends on April 15, 2008. This means that you will have until April 15, 2008, to submit claims for reimbursement for expenses for the 2007 plan year.

Note: The IRS grace period ruling also applies to current 2006 participants. You will have until March 15, 2007, to incur eligible expenses for the 2006 plan year. The deadline for claims submission for 2006 expenses is April 15, 2007.

The following are some basic questions and answers to help you understand how this Revenue Notice may affect your Health Care or Dependent Care Spending Accounts.

## **How does the Revenue Notice affect my Flexible Spending Account?**

The IRS Revenue Notice allows you to incur qualified Flexible Spending Account expenses for the current plan year until March 15 of the following year, and to be reimbursed with remaining funds from your prior plan year's account. For example, if on January 1st you have money left in your prior plan year's account, you can incur expenses up until March 15. These expenses will be paid from your prior plan year's account until it has been exhausted.

## **What happens to my claims during the grace period if I have a Flexible Spending Account for the previous and current year?**

If you have a 2006 FSA and have money left in that account after December 31, 2006, you may incur claims from January 1, 2007 through March 15, 2007 and submit them with a completed FBMC Claim Reimbursement Request form to FMBC to the address or fax number indicated on the form. If the remaining money in your 2006 account only partially pays your grace period claim and you have a 2007 FSA, you may submit only the remainder of the claim amount to ADP with either an ADP Dependent Care or Health Care Spending Account Claim Form to the address indicated on the form.

## **How should I calculate my future annual contributions for my flexible spending accounts?**

You should continue to use only the calendar year (12 months) for calculating expenses for your flexible spending accounts. The new Revenue Ruling is intended to provide a safety net for you only if you have not incurred all of your anticipated expenses during the previous plan year.

## **What happens if I do not submit my reimbursement claim for the prior plan year by April 15?**

If a reimbursement request is not submitted by the April 15 deadline for the prior year's account, funds you have contributed will be forfeited.